

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
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COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04  
SIL-01 L-03 H-01 PA-01 PRS-01 ERDA-05 DODE-00 FEAE-00  
FPC-01 INT-05 PM-04 OES-06 ACDA-07 AGRE-00 /113 W  
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R 280600Z JAN 77

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 9676

INFO AMEMBASSY KABUL

AMEMBASSY NEW DELHI

AMEMBASSY TEHRAN

AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EGEN, PK

SUBJECT: PAKISTAN-YEAR-END ECONOMIC ROUNDUP

SUMMARY: MIDWAY THROUGH PAKISTAN'S FY 77, THE OUTLOOK IS FOR A YEAR MUCH LIKE THE PRECEDING ONE, WITH GDP GROWTH IN THE 4-6 PERCENT RANGE ANOTHER GOOD YEAR IN WHEAT PRODUCTION, WEAK PERFORMANCE IN OTHER MAJOR CROPS AND IN INDUSTRY, AND A CONTINUING LARGE TRADE DEFICIT. THE PAKISTAN ECONOMY IS IN A PERIOD OF CONSOLIDATION WITH THE MAJOR INVESTMENTS OF THE PAST FEW YEARS STILL UNDER CONSTRUCTION. ECONOMIC WEAK POINTS WHICH THE GOVERNMENT WILL NEED TO ADDRESS IN THE FUTURE ARE THE MANY LAGS IN THE COUNTRY'S MAJOR GOODS-PRODUCING SECTORS- BOTH AGRICULTURE AND INDUSTRY; THE PERSISTENT THREAT OF ACCELERATING INFLATION; AND THE CONTINUING NEED TO FINANCE ITS LARGE TRADE DEFICIT. TO MEET ITS LONGER-  
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TERM NEEDS AND FULFILL ITS PROMISES AND NATIONAL EXPECTATIONS THE GOP WILL ALSO NEED TO DEVOTE MORE RESOURCES TO THE "SOFT" OR SOCIAL SECTORS, SUCH AS PRIMARY EDUCATION AND HEALTH. DOING SO COMPLICATES THE SHORT-RUN TASK OF MANAGING THE ECONOMY, ECONOMIC DECISION-MAKING IS IN ANY CASE WEAK. ON THE OTHER HAND, THE TWO PRINCIPAL BRIGHT SPOTS IN THE ECONOMIC PERFORMANCE OF THE YEAR JUST ENDED

COULD BE SIGNIFICANT ONES. THE INCREASE IN WHEAT PRODUCTION, IF IT CAN BE SUSTAINED, OPENS UP THE PROSPECT OF SELF-SUFFICIENCY IN FOOD. AND THE OIL AND GAS DISCOVERY ANNOUNCED BY THE PM DECEMBER 21 COULD, IF PROVEN AND ONCE DEVELOPED, SHARPLY REDUCE PAKISTAN'S DEPENDENCE ON IMPORTED FUEL.  
END SUMMARY

1. THE GOP REAL GROWTH TARGET FOR FY 1977 WAS 8 PERCENT. HALF WAY THROUGH THE FISCAL YEAR, WE ESTIMATE THAT PERFORMANCE WILL BE VERY SIMILAR TO FY 76, WITH REAL GDP GROWTH IN THE 4 TO 6 PERCENT RANGE. THIS LEAVES ROOM FOR SOME PER CAPITAL GROWTH (POPULATION IS STILL INCREASING AT ABOUT 3 PERCENT PER YEAR). LITTLE INCREASE WILL TAKE PLACE IN AGRICULTURE, DESPITE THE PROSPECTS FOR A SUBSTANTIAL INCREASE IN WHEAT OUTPUT. THE RICE CROP WAS HURT BY FLOODS AND THE COTTON CROP WAS A DISASTER. SIMILARLY, INDUSTRY, REPRESENTING ANOTHER 15 PERCENT OF GDP, IS LIKELY TO SHOW LITTLE INCREASE. HERE, THE MAJOR CAUSE IS THE CONTINUING STAGNATION IN THE KEY TEXTILE INDUSTRY, WHICH IN TURN IS RELATED TO STILL LAGGING EXPORT DEMAND, THE DEPRESSED CLIMATE FOR PRIVATE LARGE-SCALE INDUSTRIAL INVESTMENT, AND THE POOR COTTON CROP. SUBSTANTIAL GOVERNMENT INVESTMENT HAS TAKEN PLACE IN INDUSTRY IN THE PAST FEW YEARS, BUT THE COMPLETION TIME FOR THESE NEW INVESTMENTS IS TOO LONG TO HAVE BROUGHT NEW FACILITIES INTO PRODUCTION THIS YEAR. BY CONTRAST, WE EXPECT THAT THE LEADING SECTORS IN THE ECONOMY WILL ONCE AGAIN BE THE SERVICES SECTORS, PRIMARILY CONSTRUCTION AND PUBLIC ADMINISTRATION.

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2. THE OTHER RAPIDLY GROWING SECTOR, WHICH HAS BEEN PROMINENT IN OUR BALANCE OF PAYMENTS REPORTING BUT HAS NOT YET BEEN FULLY INTEGRATED INTO GOP OFFICIAL GNP STATISTICS, IS THE INCOME EARNED AND REMITTED BY OVERSEAS PAKISTANIS. IN 1971-72 THIS REPRESENTED ONLY A BARE 1 PERCENT OF GNP. IN FY 77, ITS SHARE IS LIKELY TO EXCEED 3 PERCENT.

3. IN A COUNTRY AS POOR AS PAKISTAN, IT SHOULD BE A SOURCE OF SOME CONCERN THAT THE MAJOR GOODS-PRODUCING SECTORS ARE GROWING MORE SLOWLY THAN ANY OTHER AREAS OF THE ECONOMY. INCREASES IN INCOME TEND TO PRODUCE DISPROPORTIONATELY HEAVY DEMAND FOR BASIC COMMODITIES, AND WHERE LAGGING PRODUCTION CANNOT MEET THE DEMAND, IMPORTS FILL THE GAP. THIS IS TRUE OF INCREASED INCOME FROM REMITTANCES AS WELL. THUS THE PATTERN OF GROWTH EXPERIENCED IN PAKISTAN FROM THE LAST FEW YEARS LEAVES MANY BASIC NEEDS UNMET AND CONTRIBUTES TO PRESSURE ON THE COUNTRY'S BALANCE OF PAYMENTS.

4. INVESTMENTS: INVESTMENT HAS INCREASED RAPIDLY IN THE PAST SEVERAL YEARS, AND WE EXPECT THIS TREND TO CONTINUE. ONCE AGAIN, PUBLIC SECTOR INDUSTRY IS LIKELY TO EXPERIENCE THE GREATEST GROWTH. INVESTMENTS IN THE PRIVATE SECTOR WILL ALMOST CERTAINLY NOT INCREASE BY THE 13 PERCENT TARGET SET BY THE GOP ANNUAL PLAN. THE PRIVATE SECTOR CONTINUES TO BE DEPRESSED FOLLOWING LAST SUMMER'S NATIONALIZATION MOVES, AND INDUSTRIAL INVESTMENT, WHICH LAST YEAR ACCOUNTED FOR 27 PERCENT OF PRIVATE INVESTMENT, IS APPARENTLY VERY LOW.

5. BALANCE OF PAYMENTS: ONCE AGAIN, WE EXPECT THAT PAKISTAN WILL FACE A HEAVY TRADE DEFICIT. THE GOP IS LIKELY TO FALL SHORT OF ITS \$1400 MILLION EXPORT TARGET. WE ESTIMATE THAT EXPORTS WILL BE CLOSER TO \$1100 MILLION AND IMPORTS ARE LIKELY TO REACH \$2450 MILLION. PAKISTAN WILL BE ABLE TO BORROW THE MONEY IT NEEDS TO LIMITED OFFICIAL USE

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CLOSE THE GAP, AND RISING REMITTANCES FROM OVERSEAS WORKERS (POSSIBLY \$450 MILLION A YEAR) WILL ALSO EASE ITS FOREIGN EXCHANGE POSITION. HOWEVER, WITH EXTERNAL DEBT ALREADY AT CLOSE TO 50 PERCENT OF GDP AND WITH A GRADUAL TENDENCY FOR HARDENING TERMS, PAKISTAN'S DEBT SERVICE PROBLEM IS CLEARLY WORSENING WITH EVERY YEAR THAT PASSES.

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6. OIL: AS A COUNTRY WHICH EXPENDS A SIGNIFICANT PORTION OF ITS FOREIGN EXCHANGE (\$400 MILLION OR 40 PERCENT OF EXPORT EARNINGS) ON PETROLEUM IMPORTS PAKISTAN HAS BEEN BUOYED BY BY TH E PRIME MINISTER'S DECEMBER 21 ANNOUNCEMENT OF A MAJOR OIL/GAS DISCOVERY AT DHODAK IN THE SOUTHERN PUNJAB. THE STRIKE IS ESTIMATED BY THE GOP AT 200 MILLION BARRELS OF HIGH QUALITY OIL WITH 4-5 TRILLION CUBIC FEET OF GAS. WHILE THE PM'S ANNOUNCEMENT OF QUALITY IS PROBABLY VALID, IT WILL REQUIRE A MINIMUM OF ONE YEAR TO ESTABLISH A MEANINGFUL RESERVE FIGURE. AN ADDITIONAL 3-5 YEARS WOULD BE REQUIRED TO BRING A COMMERCIAL DISCOVERY AT DHADAK TO THE MARKET. IF ALL ESTIMATES PROVE CORRECT, PAKISTAN COULD CONCEIVABLY MEET ITS ENTIRE PETROLEUM NEEDS FROM LIMITED OFFICIAL USE

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THIS FIELD FOR AS LONG AS TEN YEARS. PAKISTAN'S ONE EXISTING OIL FIELD IS DECLINING IN PRODUCTION AND NOW MEETS ABOUT 9 PERCENT OF DOMESTIC DEMAND.

7. INFLATION: GOP POLICY MAKERS TAKE PRIDE IN THEIR HAVING REDUCED THE INFLATION RATE DURING FY 76. JUNE 1976 CONSUMER PRICES, ACCORDING TO GOVERNMENT ESTIMATES, WERE ONLY 6 PERCENT ABOVE THE LEVEL OF JUNE 1975, AND THE AVERAGE WHOLESALE PRICE LEVEL IN FY 76 WAS ONLY 12 PERCENT ABOVE THE AVERAGE PRICE LEVEL DURING THE PRECEDING YEAR. PRICE INCREASES HAD BEEN SEVERAL TIMES AS HIGH DURING THE TWO PRECEDING YEARS.

8. WHILE PRELIMINARY PRICE DATA SUGGESTS THAT PRICE RISES HAVE CONTINUED MODERATELY DURING THE FIRST SIX MONTHS OF FY 77, THE DANGER OF A NEW ACCELERATION IN INFLATION IS A REAL ONE FOR THE FUTURE. MONEY SUPPLY HAS BEEN RISING RAPIDLY -- 28 PERCENT DURING FY 76 AND A FURTHER 21 PERCENT DURING THE FIRST HALF OF FY 77. THE BUDGET DEFICIT PROJECTED FOR FY 77 WAS OF MANAGEABLE PROPORTIONS (ABOUT RS. 1.7 BILLION OR \$170 MILLION), BUT EVEN IF BUDGET DISCIPLINE CONTINUES FAIRLY TIGHT RECENTLY ANNOUNCED INCREASES IN CIVIL SERVICE PENSIONS AND THE UPCOMING REPORT ON

GOVERNMENT SALARIES ARE LIKELY TO INCREASE IT. HERE AGAIN, MLJE PROBLEM OF THE LAGGING OUTPUT IN AGRICULTURE AND INDUSTRY BECOME RELEVANT: INCREASED PRODUCTION OF BASIC COMMODITIES COULD DO FAR MORE TO SATISFY DEMAND AND RELIEVE UPWARD PRESSURE ON PRICES THAN GROWTH IN OTHER SECTORS OF THE ECONOMY.

9. IN PART, THE PROBLEM OF RAPID MONEY CREATION IS RELATED TO PAKISTAN'S LONGSTANDING DIFFICULTIES IN RESOURCE MOBILIZATION. SAVINGS IN THE ECONOMY WENT UP SIGNIFICANTLY IN FY 76. GOVERNMENT ESTIMATES PREPARED LAST SUMMER SHOWED SAVINGS AT 8 PERCENT OF GDP, AND OUR RECENT ESTIMATES BASED ON REVISED FIGURES SUGGEST 10 PERCENT. THIS LIMITED OFFICIAL USE

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COMPARES FAVORABLY WITH THE 7.1 PERCENT LEVEL ACHIEVED IN FY 76, BUT IS STILL WELL BELOW THE LEVEL CALLED FOR BY PAKISTAN'S INVESTMENT PROGRAM. THE MOST OBVIOUS FACTOR IN THE INADEQUATE OVERALL SAVINGS LEVEL IS THE LOW LEVEL OF SAVINGS IN THE PUBLIC SECTOR, AND IN PARTICULAR THE INEFFICIENCIES IN PUBLIC SECTOR INDUSTRIES WHICH PREVENT THEM FROM FINANCING AS MUCH AS THEY SHOULD OF THEIR OWN DEVELOPMENT PROGRAMS. PROBABLY THE MOST IMPORTANT CAUSE OF LOW PRIVATE SAVINGS IS A CONTINUING RELUCTANCE TO INCREASE INTEREST RATES TO LEVELS THAT WOULD BE A POSITIVE INDUCEMENT DESPITE PRICE RISES.

10. SOCIAL SECTORS: IN THE LONGER TERM, TO KEEP UP WITH ITS DEVELOPMENT NEEDS AND THE GOVERNMENT'S PROMISES, PAKISTAN WILL NEED TO DEVOTE MORE RESOURCES THAN IT HAS SO FAR BEEN ABLE TO THE "SOFT" SECTORS, SUCH AS EDUCATION AND HEALTH. IRONICALLY, THE ECONOMIC STRUCTURE SET BY THE BHUTTO GOVERNMENT MAY HAVE MADE IT MORE DIFFICULT TO DO THIS. EXTENSIVE NATIONALIZATION OF INDUSTRY HAS INCREASED THE CLAIMS OF THE PUBLIC SECTOR INDUSTRY ON THE GOVERNMENT'S BUDGET AND MADE IT CORRESPONDINGLY MORE DIFFICULT TO INCREASE THE PERCENTAGE OF THE BUDGET DEVOTED TO SUCH LONG TERM NEEDS AS EDUCATION AND HEALTH.

11. THE FAMILY PLANNING PROGRAM TOO NEEDS TO BE STRENGTHENED. POPULATION GROWTH CONTINUES AT 3 PERCENT, AND CONTRACEPTIVE USE HAS APPARENTLY NOT INCREASED ABOVE THE 6 PERCENT LEVEL OF THE MID-60S. WHAT IS NEEDED HERE, HOWEVER, IS NOT SO MUCH INCREASED RESOURCES AS BETTER MANAGEMENT OF THE EXISTING ONES, (MORE PUBLIC HIGH LEVEL ATTENTION TO THE PROBLEM, AND AN INCREASED WILLINGNESS TO TRY NEW "BEYONE FAMILY PLANNING" APPROACHES TO POPULATION POLICY.

12. ONE FURTHER WEAKNESS WHICH IS NOT ECONOMIC IN NATURE

HANGS OVER PAKISTAN'S ECONOMIC PROSPECTS: THE GOVERNMENT'S  
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ECONOMIC POLICY-MAKING STRUCTURE, OR LACK OF IT. THE TASKS  
PAKISTAN HAS SET FOR ITSELF-BOTH FOR EXPANDING ECONOMIC  
OUTPUT AND IN THE INFINITELY MORE COMPLEX AREAS OF SOCIAL  
DEVELOPMENT AND RAISING THE INCOME OF THE POOR-DEMAND  
DIFFICULT AND SOPHISTICATED CHOICES FOR RESOURCE ALLOCATION  
AND POLICY GUIDELINES. BUT WITH GOVERNMENT DECISIONS  
INCREASINGLY CENTRALIZED IN BHUTTO'S HANDS, THE BURDEN OF  
WEIGHING ALL THE PROS AND CONS- BOTH POLITICAL AND  
ECONOMIC-FALLS HEAVILY ON HIM. AVAILABLE TALENT WITHIN  
THE GOP FOR PRESENTING THE KINDS OF ANALYSIS WHICH COULD  
ASSIST IN THESE DECISIONS IS VERY THIN. EVEN IN THOSE  
RARE CASES WHERE IT IS AVAILABLE, ALL BHUTTO'S INSTINCTS  
TEND TO MAKE HIM FAR MORE SENSITIVE TO SHORT-RUN POLITICAL  
CONSIDERATIONS AND UNIMPRESSED WITH THE URGENCY OF LONGER-  
RUN, AND PROBABLY TO HIM MORE BORING, ECONOMIC FACTORS.  
THE DEPARTURE OF SHAHID HUSSEIN, HIS SPECIAL ASSISTANT FOR  
ECONOMIC AFFAIRS FOR A YEAR, AND HUSSEIN'S FEELING THAT  
BHUTTO MAKES ALL HIS IMPORTANT DECISIONS ON POLITICAL RATHER  
THAN ECONOMIC GROUNDS, IS STRONG EVIDENCE OF THIS PROBLEM.  
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## Message Attributes

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